**BEFORE THE**
**FEDERAL COMMUNICATIONS COMMISSION**
**WASHINGTON, D.C. 20554**

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| In the Matter of: | ) | |
| | ) | |
| Proposals to Modify the Commission's Rules Relating to High-Cost Universal Service Support | ) | CC Docket No. 96-45 |
| | ) | FCC 05J-2 |
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# COMMENTS OF THE IOWA UTILITIES BOARD

## Introduction

In August 2004, the Federal – State Joint Board sought comment on issues referred to it by the Federal Communications Commission (FCC) related to universal service for rural carriers and the basis of support for competitive eligible telecommunications carriers (ETCs). Several individual Joint Board members and staff members recently proposed modifications to the FCC's rules relating to high-cost universal service support. The Joint Board is seeking comments regarding how each proposal addresses the goals of the Act, the Commission's universal service goals, and any other criteria or issues.

There were four proposals submitted: the State Allocation Mechanism, the Three Stage Package, the Universal Service Endpoint Reform Plan (USERP), and the Holistically Integrated Package.

## Discussion

All four plans are very similar in a number of ways and will have an impact on the way universal service is handled in Iowa. All four plans describe in detail how the states would be empowered with the determination of how USF would be distributed to ETCs within each individual state. States would be charged with ongoing oversight to ensure accountability. Distribution guidelines would be adopted by the FCC and directed to the states. Support in all four plans is provided for all rural exchanges regardless of the carrier. Thus, carriers such as Qwest, Iowa Telecom, and Frontier who have not received funding to date in Iowa would begin to receive high-cost support. The State Allocation Mechanism proposal cites "…states would have large incentives to maximize consumer welfare in the most efficient way."

This would arguably impact those states, like Iowa, that do not currently have state universal funds, greater than those states that are currently administering funds simply because it will add new cases to the Board's docket to determine the most reasonable way to allocate the funds.

Funds would be portable to all ETCs, however support provided would be based on the ETC's costs as opposed to simply duplicating the ILEC's costs. This will likely mean reduced support for wireless ETCs since it would appear that their costs will be lower than the ILECs.

The Holistically Integrated Package plan has an option that might be appropriate for Iowa that would extend the transition periods for carriers of less than 5,000 access lines. This would help to reduce the effects of any transition.

All four plans set benchmark rates as the basis for support levels and would require retail rates to be rebalanced on a state-wide basis. The USERP would set a permanent benchmark so that consumer cost is "affordable and reasonably comparable" as well as submit compliance reports, accountability summaries, broadband and annual reports.

To the extent that any, or a blend, of these plans is implemented, it is almost certain that retail rates could increase as a result of setting a benchmark and doing retail rate averaging. Some customers could see significant increases as a result. In fact, the USERP states that retail rate averaging and federal support may be the only remedies permitted.

There would be a transfer of a great deal of effort and responsibility placed on the Iowa Utilities Board (Board) for the distribution and accountability of the USF high-cost funds. There remains a question as to how the Board would be allowed to recover the transactional costs to perform these functions. Further, in this period of less regulation, it appears that each of the four plans would actually increase the regulatory burden.

A number of concerns remain: Would larger states receive greater support than smaller states? If support is determined on an annual basis, how does a carrier plan its investment from year-to-year. Today, support is fairly constant which helps facilitate sound infrastructure investment. Finally, there is the question of how to set the benchmark. How does the benchmark deal with calling scopes? It seems unfair to charge a customer who has a limited local calling area the same rates as a wireless customer whose calling area is almost the entire state. How does the benchmark deal with the inclusion of service bundles and wireless services?

The Board is concerned that none of the four proposals includes adequate detail to reasonably determine how the implementation might eventually affect Iowa consumers. No matter how theoretically sound a proposal may look on the surface, until the details of implementation are known, an endorsement of any specific proposal cannot be made, or must at least be conditioned that it is being made only on the theoretical basis.

Additionally, the Board is concerned that adequate implementation time be provided for any plan that is eventually adopted. Care should be taken that sufficient lead-time is allowed before implementation so that states have time to complete whatever procedures state commissions are ultimately determined to be responsible.

Finally, none of the plans take into consideration the unique situation that "average-schedule"[1] rural companies would be placed into. Iowa has a total of 135 "average-schedule" companies. What seems to be a deficiency in most, if not all of the proposals, is that they relate all suggested changes to individual company cost, either forward-looking economic cost or embedded cost. These

[1] Average schedule companies are those incumbent LECs that receive compensation for use of their interstate common carrier services on the basis of formulae that are designed to simulate the disbursements that would be received by a cost study company that is representative of average schedule companies. Average schedule status has certain advantages for small incumbent LECs. For example, average schedule companies are able to avoid the administrative burden of performing interstate cost studies.

average-schedule rural companies do not have the current capability to produce individual costs for services without extensive adjustments and modifications to the current accounting systems. These adjustments and modifications would be necessary to break down costs to the level required to develop individual costs. Currently, NECA manages the pool, determines payments based on studies and data gathered from individual companies to distribute universal service funds on representative cost calculations. Creating a system that requires every individual company to support its cost for all service functions will create enormous financial burdens on small rural companies currently receiving universal service funds by means of average schedule pricing. There may be winners and losers amongst these carriers by simply having a study area in a given state as the current practice is to determine costs based on national averages. Careful analysis should be done on the underlying formulae and factors that affect the several hundred companies currently dependent on the average schedule process for the effects of both intercarrier compensation and universal service.

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Respectfully submitted,

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